

# Update on Financing for Development

*On 11-12 December 2000, the Financing for Development Preparatory Committee (PrepCom) held two days of business hearings in New York, and on 30 January the UN Secretary-General launched an assessment of how the world's development financing needs can be met. The following highlights presentations and discussions of the hearings and the assessment's conclusions.*

## BUSINESS HEARINGS

Seventeen senior business representatives made presentations to the PrepCom, while governments and a number of NGOs addressed questions to speakers from the floor.

### **Session One: Mobilizing Domestic Financial Resources for Development**

John de Wit, Managing Director of the Small Enterprise Foundation (South Africa), presented a number of recommendations on government policies that could support the development of micro-credit. First, general restrictions on lending activities should be relaxed and the interest rate ceilings on micro-credit loans should be raised. In order to add to the sustainability of micro-credit organizations, he suggested that this figure could even be as high as 75%-100% above the prime lending rate.

Victor Valdepenas, President of the Union Bank of the Philippines, said that new exchange rate risks and interest rate risks emerged in Asia in the 1990s. In order to improve the understanding and management of these, he underscored the need for new data and analytical tools, including management of international reserves and monitoring of corporate debt structure. He also emphasized the need for strengthening financial mechanisms for better risk-management, such as improvement of the hedging instruments of foreign exchange risk. Discouraging short-term capital and particularly foreign exchange speculation during crises was essential, said Mr. Valdepenas.

### **Session Two: Foreign Direct Investment, Project Finance and Venture Capital**

The Director of Unilever (Netherlands), Andre van Heemstra, said that before investing in a country his company looked at political and economic frameworks conducive to efficient business. One key criteria was fair treatment before the law, which included strengthened intellectual property rights. In response to a question regarding whether or not a standard code of conduct would help in situations where companies were not concerned with corporate ethics, Mr. van Heemstra said that the answer did not lie in restrictions imposed from outside. Rather, companies have to make their own voluntary decisions to be socially responsible. The motive for this approach, according to Mr. van Heemstra, was not charity but rather recognizing that businesses prosper in societies that prosper.

Beatrice Rangel, Senior Adviser to the Chairman of the Cisneros Group (Venezuela), addressed conditions that facilitate foreign direct investment (FDI). She said that foreign investors expect macro-economic stability (especially a stable currency and labour market); strong, effective government; competition policies that ensure a level playing field; evidence of institutional development; peaceful solutions to social challenges; and laws protecting consumers and investors. Ms. Rangel said NGOs' role could be to advocate against monopoly rights of companies and encourage governments to invest in human resource development through training.

Rodney Harper, Director of Alcatel (France), focused his remarks on "bridging the digital divide." He said that in order for Internet use to be more widespread in developing countries, it would help if there was dedicated broadband access, much wider dial-up access, and information content with strong local-added value. Mr. Harper also suggested that governments, service and content providers, financial institutions, suppliers, NGOs and the UN form partnerships to help generate financing for Internet-related projects.

### **Session Three: Other Private Capital Flows**

Cheryl Hesse, Senior Counsel of Capital International (United States), presented an investor's view of corporate governance in emerging markets. She said factors contributing to the current emphasis of corporate governance include the increase in privatization and the 1997-1998 Asian financial crisis. Problems arose as the liberalization of financial systems outpaced the development of sound corporate governance practices. She said that corporate governance reform must be undertaken within the context of local conditions, whether in emerging markets or developed ones.

The Chairman of the Industrial Bank of Japan, Yoshiyuki Fujisawa, underscored the importance of sound financial practices and good corporate governance to attract capital flows. He also said that domestic financial markets would be required to raise funds over the long-term. Enabling conditions including accountability, transparency and stability would be very important in this regard.

In the dialogue that followed, speakers said that capital controls adopted by developing countries remained a controversial policy instrument even if they were used in times of emergency. Because the controls represented an additional cost for investors, which needed to be factored in their risk analysis, they could create an incentive to shift assets elsewhere.

### **Session Four: Trade, Systemic and Other Issues**

Kamal El-Keshen, Deputy-Director of the African Export-Import Bank (Egypt), said that Africa needed to create a stable macro-economic environment, including sound exchange rate policy; attract foreign direct investment that would help increase export production; alter the nature of exports; provide lucrative market contacts; and strengthen management skills. He said that the Africa Growth and Opportunity Act (AGOA) of the United States and the European Union's Cotonou Agreements were important for providing market access. However World Trade Organization (WTO) rules should be revisited to enable African countries to join with less stringent rules.

US-based State Street Corporation Chairman, Marshall Carter, identified three trends that are having implications for investment in developing nations: the shift to global capital markets finance and how developing economies can access the markets; the movement from "geopolitics" to "geo-economics;" and the advent of new technology and the Internet.

According to Mr. Carter, global capital markets have been displacing traditional banking as the key intermediators between providers and borrowers of capital;

these markets provide the advantage of being able to minimize risk. He suggested that countries needed to act quickly to spur the growth of capital markets that can, in turn, finance "new economy" industries.

He suggested the following in order for developing countries to provide confidence to investors and the markets: increase financial disclosure under internationally-recognized accounting standards; adopt globally-acceptable legal frameworks; improve debt management practices, coherent bankruptcy codes and financial market supervision; more market-based, less relationship-oriented banking systems; sound macro-economic policies; and sustainable currency exchange regimes.

Thomas Niles, President of the United States Council for International Business, emphasized the importance of increases in exports and enhanced foreign direct investment in light of the fact that development assistance was unlikely to increase. He said that if there was a new trade round in 2001 at the WTO, developed countries should show tremendous leadership in dismantling agricultural protection in the US and in changing the Common Agricultural Policy in Europe.

## UN SECRETARY-GENERAL'S RECOMMENDATIONS ON FINANCING FOR DEVELOPMENT

A comprehensive assessment of how the world's development financing needs can be met—prepared in consultation with the World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP) and WTO—was launched on 30 January 2001 in New York. The Report of the Secretary-General to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development (A/AC.257/12) will form the basis for discussions of the PrepCom in its preparations for the 2002 global meeting.

Calling the report a starting point for dialogue and negotiations, UN Under-Secretary General Nitin Desai said that "this document is at the leading edge of a breakthrough process, in which the global community has decided to use the UN as a forum for discussing one of the most critical and hotly contested arenas of international relations—economic and financial affairs."

The report recommends new norms for international cooperation and new mechanisms to foster implementation through greater public dialogue at national and international levels. It recommends new ways to handle the debt in crisis situations, to strengthen cooperation on tax matters, improve the effectiveness of aid, and design appropriate financial regulations for developed and developing countries.

The report contains 87 recommendations, which fall within the six components of the agenda mandated by the General Assembly for the Financing for Development process. They are domestic financial resources; international resources including foreign direct investment and other private flows; trade; international development cooperation; debt; and systemic issues.

Among other things, the report recommends the following.

- "The international community should agree that special care be taken with respect to the opening of the capital account in developing countries and countries with economies in transition, recognizing the need for national policy autonomy, which in some circumstances may call for countries to apply disincentives or controls on short-term capital in times of surges in capital flows. However, capital controls cannot be used as a substitute for sound and appropriate macroeconomic policies."

- "Member States should consider the convening of ad hoc global hearings to discuss the issues surrounding international investment agreements. Such a dialogue should involve governments, the private sector and civil society."
- "Transnational corporations (TNCs) and other firms should accept and implement the principle of good corporate citizenship and should, *inter alia*, subscribe fully to the United Nations Global Compact. Global Compact participants should take specific measures that foster development—including innovative partnerships, linkages and collective action—and share their experience with all stakeholders."
- "All developed countries should immediately provide duty-free, quota-free market access to all non-arms exports of Least Developed Countries [LDCs] and Highly Indebted Poor Countries [HIPC] and consider doing the same for other developing countries."
- "The international community should agree to explicitly address global public goods concerns and seek a shared understanding of the expanded nature of the present agenda for international cooperation. These tasks should be undertaken through existing fora, particularly in the UN, and by setting up new ones if so required."
- "Bilateral and multilateral creditors should pursue debt relief vigorously and expeditiously, including steps to provide significant and immediate debt relief to the poorest countries. Steps should also be considered to provide in exceptional situations and where appropriate, for a moratorium or even for debt cancellations. Similarly, there should be continued flexibility in addressing the debt problems of low-income countries and for additional proposals to be formulated, where needed, to complement the HIPC initiative."
- "A careful, in-depth study should be undertaken, in cooperation with the IMF and other relevant international financial institutions, of potential means for enhancing tax-related international cooperation including mandating a specific negotiating process on international agreements on this subject and the possibility of establishing an international organization or forum for cooperation on tax matters."

The report also contains recommendations to examine: taxation systems to cover socially and environmentally undesirable activities; financial services for small savers and borrowers; pension funds; the development impact of investment flows; structural adjustment programmes; and strengthening the role of the UN in the management of global economic integration.

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## HIGH-LEVEL PANEL

On 15 December 2000, UN Secretary-General Kofi Annan appointed Ernesto Zedillo, former President of Mexico, to head a panel that will advise the Secretary-General on measures he can recommend to fulfil the finance needs of the world's developing countries. The High-Level Panel will recommend to the Secretary-General achievable actions that can be carried out by governments, business, civil society and international institutions in the areas of trade, aid, debt relief, investment, domestic resource mobilization and global decision making on financial matters, and on new ways to mobilize funds for development. The Panel is expected to complete its recommendations by late April or early May 2001.